



Transforming the Pension Landscape

The Role of Actuaries in the \$25 Billion
General Motors Pension Risk Transfer Transaction

Peggy McDonald
Brent Walder

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Current Environment

U.S.

Pension plans have endured **significant market volatility** over the past decade

Pension funding stabilization provides **short-term reduction** in funding requirements

PBGC premiums are set to nearly **double** over the next few years under the pension funding stabilization agreement

Updated required **mortality** basis coming soon

Convergence with IFRS on the horizon

Corporate bond basis for lump sum calculations has **increased interest** in **lump sum** programs

Increased interest in pension buy-outs and buy-ins

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Defined Benefit Rollercoaster



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Source: Milliman 100 Pension Funding Index
* New mortality table likely to be required by 2015.

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The Mindset of a CFO / Treasurer



- My pension plan is really big
- My pension plan dictates use of cash and earnings
- This volatility makes planning nearly impossible
- I make widgets, I can't effectively manage pension risk
- I need to do something about this
- Even if I cannot do it all at once, I can start

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Current Environment

U.S. **General Motors** purchases **\$25 billion** group annuity contract from The Prudential Insurance Company of America (PICA) for 110,000 salaried retirees—2012

Verizon Communications Inc. purchases group annuity contract from PICA to transfer approximately **\$7.5 billion** of the Verizon Management Pension Plan obligations to Prudential, covering 42,000 retirees—2012

U.K. Pension risk transfer is a well-developed market with over **\$67 billion** of transactions since 2007*

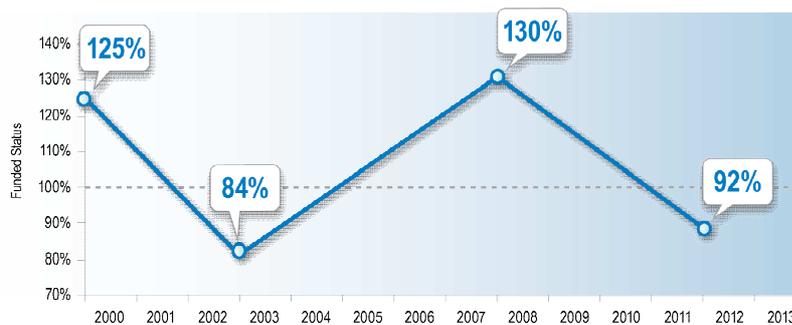
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* Hymans Robertson: Buy-outs, buy-ins and longevity hedging Q2 2012

The GM Pension Rollercoaster

U.S. Salaried Plan



Source: Dan Ammann, SVP and CFO, General Motors

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“ It illustrates the **significant volatility and ebbs and flows to the company’s risk profile** as discount rates move and capital market returns fluctuate, notwithstanding **contributions of over \$7 billion** we’ve made into just the salaried plan over this time horizon. ”

– Dan Ammann, SVP and CFO, General Motors

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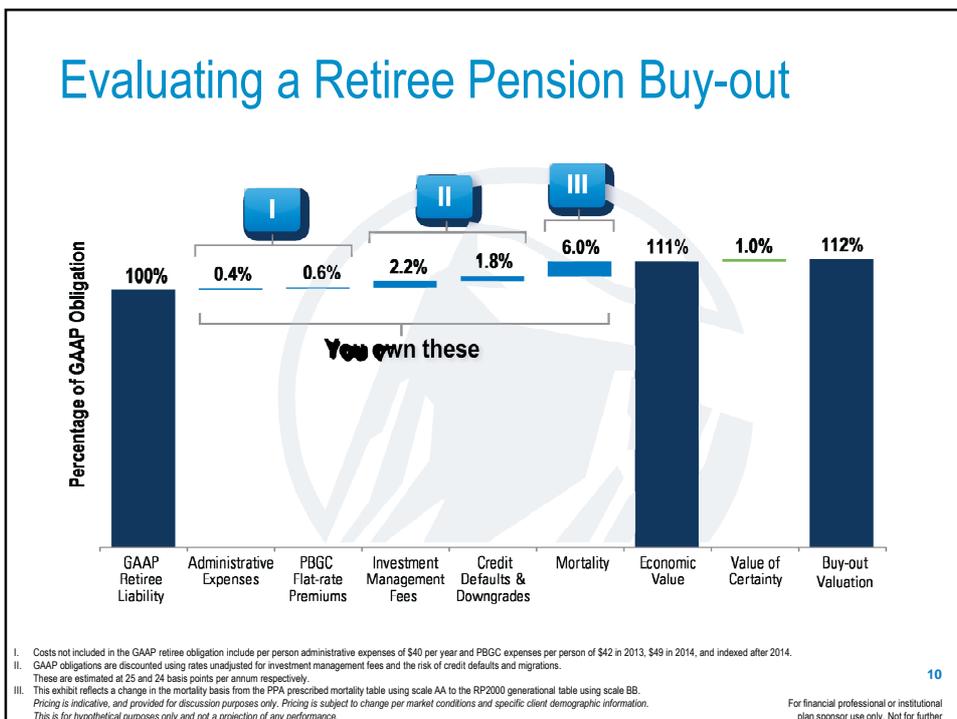


“ It allows us to transition the business of **taking pension risk to Prudential, that is their core business**, and it **allows us to spend more time and resources on our core business** of designing, building, and selling the world’s best vehicles. ”

– Dan Ammann, SVP and CFO, General Motors

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GM and Verizon

Unique Requirements of Jumbo Deals

Purchase of Group Annuity Contract

M&A-style Transaction Agreement and Deal Process

Complex Negotiations of Multiple Parties

- Corporate Plan Sponsor
- Investment Bank
- Actuarial Consulting firm
- Independent Fiduciary
- Legal Counsel of each party

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GM and Verizon

Unique Requirements of Jumbo Deals

In-kind asset transfer reduces friction costs

- Insurer provided guidance to minimize premium
- Largely corporate bonds

Separation of several months between agreement date and final closing

- Needed to announce publically prior to transaction close
 - Plan termination
 - Retiree lump sum program
 - Asset re-positioning
- Requires roll-forward techniques to capture market changes

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General Motors

\$25 billion—110,000 retirees



“...the move helps significantly reduce economic volatility, improves valuation transparency, and enables GM to focus more on making cars rather than managing a pension fund.”

— Morgan Stanley

Source: "General Motors: Pension Down, Credibility Up." Morgan Stanley, 6/1/2012. Used with permission.

“As GM continues to fund and de-risk its pension, investors should develop increased confidence that incremental cash flows will accrue to them, and not the pension. As this happens, GM's multiple should expand.”

— Credit Suisse

Source: "Doing the Right Thing...GM Further De-risks Pension; Positive for Equityholders." Credit Suisse, Equity Research, 6/4/2012. Used with permission.

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Analyst reactions illustrate the impact of the transaction on perceptions, are not meant to imply endorsement of specific analysts' views, and do not necessarily represent the views of all analysts.

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Pensions & Investments, 2012

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Insurer Challenges

Liabilities

Complex plan provisions with unknown quality of pension data

- Premium must be adjusted via transparent mechanism for final data

Mortality assumption for specific population

Mortality improvement as a critical unknown

Unknown final set of lives after lump sums

- Premium must adjust to reflect final lives and appropriate anti-selection charges

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Insurer Challenges

Assets

Develop Base Premium based on assets that we do not yet own

Provide transparent premium adjustment mechanism to adjust premium for changes in capital markets

Provide flexibility around in-kind portfolio and premium adjustment to reflect final composition

- How to reflect cost/risk of transitioning to end-state portfolio
- Illiquid assets potentially included in in-kind portfolio

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Insurer Challenges

Size **\$25,000,000,000**

5 basis points = \$12 Million

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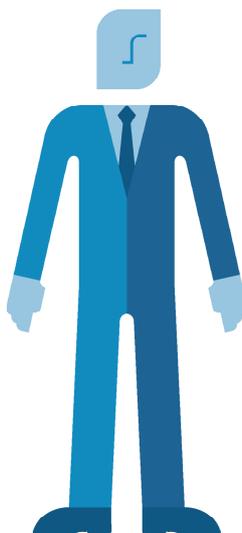
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Actuarial Competencies

The role of actuaries

Technical

- Pension plan benefit and data expertise
- Longevity risk analytics and modeling
- Integrated asset and liability modeling
- Insurer financial foundation: reserves, accounting, capital, and tax frameworks
- Profitability modeling and sensitivity testing
- Documentation and controls



Leadership

- Client focus, creativity, and innovation
- Collaboration and candor
- Establishing a clear analytical vision and transforming it into action
- Decision-making and intelligent risk-taking
- Communication and influence
- Passion, energy, and an indomitable team spirit

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Questions

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The Milliman 100 Pension Funding Index projects the funded status for pension plans included in the annual Milliman study of the 100 largest defined benefit plans sponsored by U.S. public companies, reflecting the impact of market returns and interest rate changes on pension funded status, utilizing the actual reported asset values, liabilities, and asset allocations of the companies' pension plans.

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De-risking Options

RISK MANAGEMENT	RISK TRANSFER		
LDI Basic or Complex	Buy-in	Lump Sum	Buy-out
<ul style="list-style-type: none"> Controls pension investment risks through liability-based investment strategy 	<ul style="list-style-type: none"> Transacted for specified lives Assets remain in the pension plan Does not reduce funded status Does not require settlement accounting Convertible to buy-out at any time 	<ul style="list-style-type: none"> Transfers risk to participants PPA Corporate Bond basis fully phased-in May trigger settlement accounting and reduce funded status 	<ul style="list-style-type: none"> Transacted for specified lives Assets transfer to insurer Reduces funded status if transacted for only a portion of plan Requires settlement accounting

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